AFFORDABLE RENTAL HOUSING A.C.T.I.O.N.
A Call To Invest in Our Neighborhoods

President Obama's FY 2015 Budget Request

Tax Reform Proposals Related to the Low-Income Housing Tax Credit

Tax Reform

In its FY 2015 Budget, the Obama Administration continues to call on Congress to enact corporate tax reform that would eliminate loopholes and subsidies, lower tax rates on corporations and small businesses, and strengthen manufacturing and innovation without increasing the deficit. In pursuit of these goals, the budget proposes lowering top corporate rates to 28 percent (25 percent for manufacturing) while creating tax incentives to create jobs, promote clean energy and manufacturing, and "insource" businesses that operate abroad. The budget also outlines a proposal for individual tax reform, which includes expanding tax benefits for families like the Earned Income Tax Credit and Child and Dependent Care Tax Credit, and implementing the "Buffett Rule" by imposing a minimum tax rate on top earners.

There are also several tax reform proposals related to the Housing Credit.

Low-Income Housing Tax Credit (Housing Credit) Proposals

The budget proposal includes six Housing Credit proposals. Five are from previous budget proposals, with only one new proposal for FY 2015.

1. **PAB Conversion.** This proposal would allow states to increase their Housing Credit authority by converting some of their private activity bond (PAB) volume cap into Housing Credit allocations.
    - For every $1,000 of PAB cap that is converted, additional credit authority would be created at a rate of 1,000 times twice the 30% present value credit rate
    - States would be able to convert up to 8 percent of their annual PAB volume cap.
    - The decision of whether or not to convert PAB volume cap in this way would be left to the discretion of states.
    - Example: A state has $1 billion of PAB volume cap and decides to convert 8% of that cap, or $80 million. At the March 2014 30% present value credit rate of 3.26%, this would create additional credit authority of $5.216 million ($80 million times 6.52%) which would be roughly a 22% increase in cap authority.

2. **Modify credit rate formula.** Rather than extend the 9 percent floor, this proposal would use revised formulas to produce annual allocated-credit rates that are somewhat higher than the rates produced by the current present-value formula.
    - The goal in developing a new formula was to create a more 'accurate' discount rate that more closely reflects an investor's cost of borrowing rather than the government's cost of borrowing. The revised rate would also be more responsive to changes in market interest rates.
    - While the proposed formula would be less generous than the 9 percent rate in today's low-interest rate environment, the formula would provide a higher credit rate in higher interest rate environments.

3. **Income-mixing.** This proposal would encourage income mixing by allowing projects to comply with an income-averaging rule, under which the income limits for at least 40 percent of the units in a project could *average* 60 percent of area median income (AMI) or lower, so long as none of the units are occupied by an individual with income greater than 80 percent of AMI.
    - Under current law, owners may elect to reserve either:
        1. 40 percent of units for tenants with incomes at or below 60 percent of AMI; or
        2. 20 percent of units for tenants with incomes at or below 50 percent of AMI
    - The Administration's goal is to encourage income mixing, which will be especially helpful in low-income neighborhood revitalization and in rural areas where sparse populations make it difficult to maintain an appropriate income mix in properties.
    - The Administration believes this proposal will remove incentives to remove existing tenants from Housing Credit properties when their incomes rise.

4. **Preservation as a Selection Criteria**. This proposal would add preservation of federally assisted affordable housing as a selection criterion in state Qualified Allocation Plans.
    - The Administration believes that this provision, in conjunction with the expanded Housing Credit authority from the first provision, would more effectively encourage the use of the credit for preservation than previous proposals to add a preservation basis boost.

5. **Real Estate Investment Trusts**. This proposal is designed to make Housing Credits beneficial to real estate investment trusts (REITs) by allowing REITs to designate a portion of their dividends as tax exempt equivalent to the value of the tax credits that would otherwise be received on the investment.
    - Under current law, REITs have no incentive to invest in Housing Credits because they cannot utilize tax credits or pass them through to their shareholders. Under this provision, REITs would be permitted to designate a portion of their dividends as tax-free to their shareholders, equivalent to the value of the Housing Credit.

6. **Protecting Victims of Domestic Abuse (new proposal).** This proposal would require protections for victims of domestic abuse in both low-income and market-rate units in Housing Credit developments. Victims of abuse would qualify for "special needs" preferences and would have additional protections from eviction, while perpetrators of abuse could be evicted.
    - This proposal builds on a requirement in the Violence Against Women Reauthorization Act of 2013 that tenants of assisted housing be protected from domestic abuse.

America Fast Forward Bond Program Proposal

The budget also proposes the creation of an America Fast Forward Bond program as an optional alternative to traditional tax-exempt bonds, designed to attract new sources of capital for infrastructure investment. These bonds could be used the same purposes as private activity bonds, which are currently responsible for financing 40 percent of all Housing Credit developments.